



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARION COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**June 7, 2001**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MARION COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**June 7, 2001**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Marion County Sheriff as of June 7, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected net taxes of \$4,603,359 for the districts for 2000 taxes. The Sheriff distributed taxes of \$4,414,688 to the districts for 2000 Taxes. The Extension District is due \$5 and a refund of \$288 is due to the Sheriff from the county.

**Report Comment:**

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$872,207 And Enter Into A Written Agreement To Protect Deposits



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David R. Hourigan, Marion County Judge/Executive

Honorable Carroll Kirkland, Marion County Sheriff

Members of the Marion County Fiscal Court

Independent Auditor's Report

We have audited the Marion County Sheriff's Settlement - 2000 Taxes as of June 7, 2001. This tax settlement is the responsibility of the Marion County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Marion County Sheriff's taxes charged, credited, and paid as of June 7, 2001, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David R. Hourigan, Marion County Judge/Executive  
Honorable Carroll Kirkland, Marion County Sheriff  
Members of the Marion County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$872,207 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
January 25, 2002

MARION COUNTY  
CARROLL KIRKLAND, SHERIFF  
SHERIFF'S SETTLEMENT - 2000 TAXES

June 7, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 390,777	\$ 419,571	\$ 2,272,675	\$ 724,994
Tangible Personal Property	37,887	36,288	162,324	221,035
Intangible Personal Property				107,517
Fire Protection	1,154			
Taxes Increased Through Erroneous Assessments	426	458	2,480	3,383
Franchise Corporation	46,243	52,684	241,614	
Limestone, Sand, and Mineral Reserves	104	111	602	192
Bank Franchises	50,986			
Penalties	2,594	2,764	14,853	5,187
Adjusted to Sheriff's Receipt	(103)	(104)	(608)	734
Gross Chargeable to Sheriff	<u>\$ 530,068</u>	<u>\$ 511,772</u>	<u>\$ 2,693,940</u>	<u>\$ 1,063,042</u>
<u>Credits</u>				
Exonerations	\$ 4,701	\$ 4,725	\$ 23,082	\$ 8,301
Discounts	6,959	6,296	33,601	15,771
Delinquents:				
Real Estate	6,837	7,330	39,706	12,666
Tangible Personal Property	484	464	2,073	1,151
Intangible Personal Property				967
Uncollected Franchise	3,194	3,088	14,067	
Total Credits	<u>\$ 22,175</u>	<u>\$ 21,903</u>	<u>\$ 112,529</u>	<u>\$ 38,856</u>
Net Tax Yield	\$ 507,893	\$ 489,869	\$ 2,581,411	\$ 1,024,186
Less: Commissions *	<u>21,873</u>	<u>20,819</u>	<u>96,803</u>	<u>43,815</u>
Net Taxes Due	\$ 486,020	\$ 469,050	\$ 2,484,608	\$ 980,371
Taxes Paid	485,733	468,438	2,481,371	979,429
Credit - Sheriff's Overpayment Of State Taxes				283
Refunds (Current and Prior Year)	<u>575</u>	<u>607</u>	<u>3,237</u>	<u>1,225</u>
Due District or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (288)</u>	<u>\$ 5</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* and\*\* See Page 4

MARION COUNTY  
CARROLL KIRKLAND, SHERIFF  
SHERIFF'S SETTLEMENT - 2000 TAXES  
June 7, 2001  
(Continued)

\* Commissions:

10% on \$	10,000
4.25% on \$	2,011,948
3.75% on \$	2,581,411

\*\* Special Taxing Districts:

Extension District	<u>\$</u>	<u>5</u>
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The accompanying notes are an integral part of the financial statement.

MARION COUNTY  
NOTES TO FINANCIAL STATEMENT

June 7, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 7, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of November 8, 2000 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$872,207 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

MARION COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 7, 2001  
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 8, 2000.

	<u>Bank Balance</u>
Insured or collateralized with securities held by pledging depository institution in the county official's name	\$ 2,238,754
Uncollateralized and uninsured	<u>872,207</u>
Total	<u><u>\$ 3,110,961</u></u>

Note 4. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2000 through April 20, 2001.

Note 5. Interest Income

The Marion County Sheriff earned \$14,285 as interest income on 2000 taxes. The Sheriff overpaid the school district, and the remainder will be used to operate the Sheriff's office. As of June 7, 2001, the Sheriff was due a refund of \$322 in interest from the school district and owed \$397 in interest to his fee account.

Note 6. Sheriff's 10% Add-On Fee

The Marion County Sheriff collected \$19,578 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Marion County Sheriff collected \$243 of advertising costs and \$225 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff did not distribute the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of June 7, 2001, the Sheriff owes \$243 in advertising costs to the county.

## COMMENT AND RECOMMENDATION



MARION COUNTY  
CARROLL KIRKLAND, SHERIFF  
COMMENT AND RECOMMENDATION

June 7, 2001

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$872,207 And Enter Into A Written Agreement To Protect Deposits

On November 8, 2000, \$872,207 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*We obtained what we thought was our pledge agreement with the bank. We now have the proper form for this and will get agreement on necessary funds.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marion County Sheriff's Settlement - 2000 Taxes as of June 7, 2001, and have issued our report thereon dated January 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marion County Sheriff's Settlement - 2000 Taxes as of June 7, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$872,207 And Enter Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marion County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
January 25, 2002

